The outlook for mining sector remains uncertain, and capex investment by miners remains low. The resulting decline in capex by miners does not bode well for equipment manufacturers. However, the capex decline is forecast to bottom out at US$65b in 2017,¹ and the mining equipment market is consequently expected to stabilize.

**Demand: original equipment demand declines to 2009 crisis level; aftersales service recovers**

Declining capital expenditure by mining companies is adversely impacting demand for mining equipment, resulting in weaker sales in the first quarter of 2014. Following a decline of two full years, mining equipment shipments are now only slightly above the lowest point reached in 2009 following the global economic crisis. In fact, 1Q14 saw the second-lowest deliveries recorded in the last six years. While demand from operations has remained fairly robust, it is demand from construction/development that has come off significantly in recent years.

**Global mining capex forecasts**

![Graph showing global mining capex forecasts](image)


Major equipment manufacturers are reporting lower revenues or losses. For example, Sandvik’s order book in 1Q14 fell 18%. Also, Caterpillar reported a 45% drop in profits in 1Q14 due to weaker mining orders. Joy Global reported in May that its total orders had fallen by 7% y-o-y to US$1.05b. However, its orders for maintenance services rose for the second straight quarter as demand increased from miners who had put off maintenance services for over a year.

Analysts expect miners to continue with mining maintenance capex cuts in the next quarter as well before they restart investing in existing fleets to support current production and forecast growth. At the same time, there is already an increase in the frequency of emergency orders by miners for equipment repair. Mining equipment manufacturers are expecting the higher-margin aftermarket sales to recover in the second half of 2014. This trend is likely to continue as miners seek to sweat existing assets by extending the life of equipment through maintenance rather than investing in replacement capex.

Supply: manufacturers focus on supply rationalization and cost cutting amid competition

Mining equipment manufacturers are focusing on productivity improvement, efficiency and cost cutting in their operations to protect their margins. For instance, Caterpillar is consolidating plants to ensure greater sharing of common resources and lowering its headcount to save on salaries. Similarly, Joy Global has reduced its workforce at its US facility.

Competition in the market is increasing, particularly as Chinese equipment manufacturers are coming up the quality curve at an incredible pace. For instance, Rio Tinto has been increasing purchases of heavy equipment and other items from China and has found the quality impressive. This increased penetration of Chinese mining equipment into the premium products market challenges existing manufacturers like Caterpillar, Komatsu and Joy Global, which are already struggling with declining demand from the mining sector.

Mining equipment manufacturers have, however, refrained from reducing prices on equipment but are rather offering incentives, such as a free piece of equipment with larger orders. Sales services are being sweetened in the form of arranging favorable financing for buying machinery.

Addressing mining companies’ demand for higher efficiency, equipment manufacturers are also targeting quality improvements and innovation to lower machine downtime.

Given ongoing market uncertainty, equipment manufacturers are making only small acquisitions to access new product segments. For example, in April, Joy Global entered into a definitive agreement to purchase certain assets of North America-focused Mining Technologies International (MTI) for CA$51m.

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5 “Mining equipment lessors seeing signs of the aftermarket picking up in 2H14,” Macquarie, 8 April 2014.
7 “Mining equipment companies try to dig out from downturn,” Journai Sentinel, 11 January 2014.
8 “Rio Tinto says Chinese now make ‘much higher quality’ mining equipment,” Mining.com, 16 December 2013.
9 “Mining equipment lessors seeing signs of the aftermarket picking up in 2H14,” Macquarie, 8 April 2014.
EY’s Global Mining & Metals Center

With a volatile outlook for mining and metals, the global sector is focused on cost optimization and productivity improvement, while poised for value-based growth opportunities as they arise. The sector also faces the increased challenges of changing expectations in the maintenance of its social license to operate, skills shortages, effectively executing capital projects and meeting government revenue expectations.

EY’s Global Mining & Metals Center brings together a worldwide team of professionals to help you succeed—a team with deep technical experience in providing assurance, tax, transactions and advisory services to the mining and metals sector. The Center is where people and ideas come together to help mining and metals companies meet the issues of today and anticipate those of tomorrow. Ultimately it enables us to help you meet your goals and compete more effectively.

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